

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-11 ISO-00 CIAE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 AID-20 COME-00 EB-11 FRB-02 XMB-07 OPIC-12

CIEP-02 LAB-06 SIL-01 OMB-01 NEA-10 IO-14 CEA-02

STR-08 DRC-01 /186 W

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USADB

TREASURY FOR FINKEL

E.O. 11652: ADS, DECLAS 12/31/74

TAGS: EAID, EFIN

SUBJECT: SPECIAL RESERVE FUND ASSETS

SUMMARY: ADB MANAGMENT PROPOSES THAT BANK'S SPECIAL RESERVE FUNDS ASSETS, WHICH ARE PRESENTLY MAINTAINED IN TWENTY-ONE DIFFERENT CURRENCIES, BE CONSOLIDATED INFO FOLLOWING FOUR CURRENCIES: DEUTSCHE MARKS, JAPANESE YEN, POUND STERLING, AND U.S. DOLLARS. MANAGEMENT ALSO REQUESTS BOARD CONFIRMATION OF THE CURRENT BANK POLICY TO INVEST THESE FUNDS IN COMMERCIAL BANK TIME DEPOSITS, CERTIFICATE OF DEPOSITS, AND SIMILAR INSTRUMENTS. BOARD DECISION SCHEDULED FOR JANUARY 24. USADB RECOMMENDS FAVORABLE ACTION.

1. ADB DOCUMENT R4-74 ENTITLED "SPECIAL RESERVE FUND ASSETS" POUCHED JANUARY 9 IS TO BE CONSIDERED BY BOARD OF LIMITED OFFICIAL USE
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DIRECTORS JANUARY 24.

2. ARTICLE 16.1 OF BANK'S ARTICLES OF AGREEMENT REQUIRES THE BANK TO CHARGE A "COMMISSION" ON ITS ORDINARY LOANS AT RATE OF NOT LESS THAN ONE PERCENT PER ANNUM. BANK'S BOARD OF DIRECTORS AT ITS MEETING HELD ON FEBRUARY 8, 1968 RESOLVED THAT EFFECTIVE COMMISSION RATE WOULD BE ONE PERCENT PER ANNUM. PROCEEDS FROM COLLECTION OF COMMISSION CONSTITUTE SPECIAL RESERVE FUND TO BE UTILIZED FOR MEETING LIABILITIES RESULTING FROM CASES OF DEFAULT ON BANK BORROWINGS.

3. CURRENTLY BANK IS RETAINING ONE PERCENT COMMISSION ON ITS ORDINARY LOANS IN MEMBER CURRENCIES IN WHICH SUCH COMMISSION WAS COLLECTED. TO DATE, SUCH COMMISSION ACCRUED AND COLLECTED IN TWENTY-ONE DIFFERENT CURRENCIES AMOUNTS TO \$3,320,079.85. BULK OF COMMISSION, HOWEVER, HAS BEEN PAID LARGELY IN FOUR CURRENCIES -- DEUTSCHE MARKS, JAPANESE YEN, POUND STERLING AND U.S. DOLLARS, AND HAS BEEN INVESTED IN TIME DEPOSITS, CERTIFICATES OF DEPOSIT OR SIMILAR INSTRUMENTS.

4. BOARD PAPER POINTS OUT THAT CURRENT PRACTICE OF IBRD AND IDB IS TO MAINTAIN ALL SPECIAL RESERVE FUNDS IN U.S. DOLLARS ONLY AND INVEST EXCLUSIVELY IN U.S. GOVERNMENT SECURITIES IN UNITED STATES. THE ONLY DIFFERENCE IN PRACTICE BETWEEN THESE TWO INSTITUTIONS IS THAT IBRD HANDLES CONVERSION AS INTERNAL ADJUSTMENT WHILE IDB ACTUALLY SELLS COMMISSION FUNDS COLLECTED TO RESPECTIVE CENTRAL BANKS.

5. IN ORDER TO SIMPLIFY PROCEDURE OF MANAGING SPECIAL RESERVE FUNDS AND TO REDUCE PAPERWORK CONNECTED WITH IT, BANK MANAGEMENT IS PROPOSING TO CONSOLIDATE SPECIAL RESERVE FUNDS IN AFOREMENTIONED FOUR CURRENCIES. COMMISSION COLLECTED IN ALL OTHER CURRENCIES WILL BE CONVERTED INTO ONE OF FOUR CURRENCIES AS AN INTERNAL ACCOUNTING ADJUSTMENT ON A PRO RATA BASIS. MANAGEMENT FURTHERMORE REQUESTS BOARD CONFIRMATION OF ITS EXISTING POLICY TO INVEST SPECIAL RESERVE FUNDS IN LIMITED OFFICIAL USE
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TIME DEPOSITS, CERTIFICATES OF DEPOSIT, OR SIMILAR INSTRUMENTS.

6. WHILE IT WOULD BE ADVANTAGEOUS TO U.S. TO HAVE ADB FOLLOW PRACTICE OF IDB AND IBRD, USADB FEELS AWKWARD TO RAISE ISSUE IN VIEW SUBSTANTIAL AMOUNT OF COMMISSION ALREADY COLLECTED IN DEUTSCHE MARKS, POUND STERLING, AND PARTICULARLY JAPANESE YEN. ADDITIONALLY, IT IS UNLIKELY THAT OTHER DIRECTORS, UNDER CIRCUMSTANCES, WOULD SUPPORT ONE CURRENCY PROPOSAL. CONSEQUENTLY, RECOMMEND FAVORABLE ACTION ON BANK PROPOSAL AS SUBMITTED.

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